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Investing in Life: Insurance in Antebellum America

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Murphy, Sharon Ann *Investing in Life: Insurance in Antebellum America*. Johns Hopkins University Press, \$65.00 ISBN 978-0-8018-9624-8

Understanding Antebellum Financial Security

During the first half of the nineteenth century, large-scale business enterprises began to emerge across the United States. To be sure, agricultural enterprises of significant size--slave plantations--were common in the South even in the colonial period, but before the early nineteenth century there were few other sizable business units in the U.S. This situation changed dramatically in the early national and antebellum periods as increased market size and integration allowed, and in some cases forced, American businesses in other sectors to scale up in order effectively to compete. This was particularly so in capital -intensive industries, wherein the growth in size and the adoption of the economically advantageous corporate form of organization often went hand-in-hand. Thus, we increasingly find relatively large enterprises, organized as corporations rather than as sole proprietorships or partnerships, becoming common in industries such as banking, manufacturing, internal improvements, and insurance in order to reap benefits associated solely with the corporate form. These benefits-- fictitious legal personhood, divisibility of capital stock into individual shares, and limits on (if not outright limited) liability—were unattainable via the two other common forms of business organization.

Economic and business historians over the years have studied these developments in considerable detail. As a result of their efforts, we now know a great deal about the evolution of large-scale enterprises in manufacturing, banking, and the transportation and communications sectors. Until recently, though, much less work had been done on the early history of the insurance industry of the U.S., which left us with missing, incomplete, and /or erroneous information on key developments in this vital industry. Sharon Ann Murphy's fine new book *Investing in Life: Insurance in Antebellum America* goes a long

way in remedying such problems, in so doing, allowing us-- really for the first time-- to get an analytical handle on the industry qua industry and an accurate account of the evolution of the leading firms of which it was comprised.

Murphy covers a remarkable amount of ground in her study, which is as broad as it is deep. She starts by explaining how, why, and when a market for life insurance began to emerge in the U.S. In her view, by the early nineteenth century, a series of social changes--most notably, urbanization, industrialization, the relative decline of the middle-class household as a site of economic production, and the increasing importance of salaried employment for middle-class men-- created conditions both favorable to, and necessary and sufficient for a product such as life insurance that could provide the rising middle class (and to a lesser extent other groups as well) with some of the security Americans possessed--or at least believed that they possessed-- in earlier times. That is to say, life insurance rendered life more secure for middle-class families that found themselves, often for the first time, dependent on the income of one male salaried employee to make ends meet. The fact that the U.S. economy was quite volatile in the early nineteenth century and the fact that most of the new middle-class professionals--merchants, lawyers, clerks, clergy, and the like--worked in larger, increasingly impersonal urban settings where death rates were often high added to life insurance's appeal. So, too, did the fact that many of the emergent middle-class families had only recently quit the rural sector and perforce bid good-bye to alternative security mechanisms such as kith, kin, and land.

In such a context, it is not surprising that by the second decade of the nineteenth-century private life- insurance companies began to emerge in the U.S., essentially importing and adapting a business model that already existed in Great Britain. If the Pennsylvania Company (1812) and the Massachusetts Hospital Life Insurance Company (1818) were the main players early on, the most important life -insurance company in the country, prior to the rise of mutuals in the 1840s, was New York Life & Trust (NYL & T), incorporated in 1830. The driving force behind NYL & T, William Bard, can in fact be considered the father of the U.S. life- insurance industry. Not only did he push harder than anyone else in the early days of the industry for the compilation of better actuarial data and the creation of more accurate life tables, but he also pioneered many of the marketing practices and protocols that informed the industry throughout the antebellum period, indeed, right through the Civil War. Regarding the last, marketing: Bard was the first major figure in the industry to

push hard to expand the market for life insurance, his hope being to spread risk over a broader pool of policyholders. Because of the assiduous way that NYL & T compiled and employed mortality data and information on risk factors, he was able to do just that-- without taking on problematic accounts, rashly slashing rates, or compromising the fiscal status of the company.

Under Bard's leadership NYL & T grew rapidly and quickly came to dominate the industry, but other private insurers also did well, generally by following Bard's basic script. Indeed, one of Murphy's most important revisionist findings is that the U.S. life-insurance industry experienced robust growth well before the rise of mutual insurers—companies owned by policy holders rather than shareholders—in the 1840s. Whereas previous writers had generally assumed that the advent of mutuals constituted a radical disjuncture in the history of the industry—the so-called revolution of 1843 (the year Mutual of New York, the first purely mutual company, began selling policies)—Murphy offers compelling evidence that the American life-insurance industry was on a healthy trajectory well before that time. Similarly, she punctures another hoary myth about the early history of the industry, namely, that prior to the 1840s the development of the life-insurance market in the U.S. was held back because of widespread clerical opposition to the idea of mortals “insuring” human lives. According to Murphy, virtually no extant sources from the period support this contention, and the fact that clerics were avid purchasers of life-insurance policies almost from the start renders such claims even more dubious.

Although Murphy effectively refutes the argument that a revolution in the American life-insurance industry occurred (or even began) in 1843, she readily acknowledges that the mutual companies that arose in the 1840s increasingly carried the day during the remainder of the antebellum period. In her view, though, they did so not because the private insurers that had dominated the industry prior to the 1840s were ineffectual, predatory, or hidebound, but because the mutuals were able to sense and tap into the growing desire of the middle class (the key market for insurance) to earn profits, dividends, and investment income—in so doing, cutting premia payments in a *de facto* sense—even as they insured policy holders against the vagaries of life.

The private companies tried, albeit belatedly, to counter the mutual with innovations of their own, but it was a case of too little, too late. By the late 1840s, fast-growing mutuals completely dominated the industry, and although the expansion of the market for life insurance slowed down in the 1850s, on the

eve of the Civil War, the mutuals continued atop the heap. Lest one forget, however, the rapid growth and rise to power of the mutual companies in the late antebellum period rested upon the solid foundation laid (and rapid growth of) the private life-insurance companies in the 1820s, 1830s, and early 1840s. And, as Murphy points out late in her book, private, for-profit insurers would rise to prominence again after the industry's near collapse and ensuing reorganization in the early 1870s.

Despite the title of her book, which suggests that her coverage ends in 1860, Murphy includes excellent chapters on the dramatic and traumatic developments in the life-insurance industry during the Civil War and the post-bellum period. Moreover, she supplements the basic chronological organization of *Investing in Life* with insightful discussions--and in some cases entire chapters-- on matters such as business organization and operations; the development of life tables/actuarial science/ the statistical mindset; the relationship between life insurance and moral reform; marketing; slave insurance; and even life insurance in the American imagination. Finally, it should be pointed out that Murphy understands the industry well and employs insurance concepts such as adverse selection and moral hazard—concepts that have proven so important to the “new microeconomics” in recent decades-- to excellent effect. In fine, *Investing in Life: Insurance in Antebellum America* is an exemplary piece of scholarship that upon publication immediately became the standard work in the field.

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